

MATRIX SERVICE CO  
Form 10-Q  
November 08, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2013

or  
☐ Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-15461

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MATRIX SERVICE COMPANY  
(Exact name of registrant as specified in its charter)

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DELAWARE  
(State of incorporation)  
5100 East Skelly Drive, Suite 700, Tulsa, Oklahoma 74135  
(Address of principal executive offices and zip code)  
Registrant's telephone number, including area code: (918) 838-8822  
Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

73-1352174  
(I.R.S. Employer Identification No.)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Inter Active Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 1, 2013 there were 27,888,217 shares of the Company's common stock, \$0.01 par value per share, issued and 26,193,467 shares outstanding.



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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## Matrix Service Company

## Condensed Consolidated Statements of Income

(In thousands, except per share data)

(unaudited)

|   | Three Months Ended |               |
|---|--------------------|---------------|
|   | September 30,      | September 30, |
|   | 2013               | 2012          |
| Revenues  | \$226,217          | \$209,608     |
| Cost of revenues                                      | 200,741            | 187,364       |
| Gross profit  | 25,476             | 22,244        |
| Selling, general and administrative expenses          | 14,714             | 14,320        |
| Operating income                                      | 10,762             | 7,924         |
| Other income (expense):                               |                    |               |
| Interest expense                                      | (223)              | (183)         |
| Interest income                                       | 5                  | 8             |
| Other   | (88)               | 57            |
| Income before income tax expense                      | 10,456             | 7,806         |
| Provision for federal, state and foreign income taxes | 3,904              | 3,122         |
| Net income  | \$6,552            | \$4,684       |
| Basic earnings per common share                       | \$0.25             | \$0.18        |
| Diluted earnings per common share                     | \$0.25             | \$0.18        |
| Weighted average common shares outstanding:           |                    |               |
| Basic   | 26,116             | 25,788        |
| Diluted   | 26,647             | 26,148        |
| See accompanying notes.                               |                    |               |

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Matrix Service Company  
 Condensed Consolidated Statements of Comprehensive Income  
 (In thousands)  
 (unaudited)

|  | Three Months Ended |               |
|--|--------------------|---------------|
|  | September 30,      | September 30, |
|  | 2013               | 2012          |
| Net income                               | \$6,552            | \$4,684       |
| Other comprehensive income, net of tax:  |                    |               |
| Foreign currency translation adjustments | 302                | 467           |
| Comprehensive income                     | \$6,854            | \$5,151       |
| See accompanying notes.                  |                    |               |

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Matrix Service Company  
Condensed Consolidated Balance Sheets  
(In thousands)  
(unaudited)

|   | September 30,<br>2013 | June 30,<br>2013 |
|---|-----------------------|------------------|
| Assets  |                       |                  |
| Current assets:   |                       |                  |
| Cash and cash equivalents   | \$79,762              | \$63,750         |
| Accounts receivable, less allowances (September 30, 2013—\$70 and June 30, 2013—\$70) | 50,473                | 140,840          |
| Costs and estimated earnings in excess of billings on uncompleted contracts           | 66,678                | 73,773           |
| Deferred income taxes   | 6,063                 | 5,657            |
| Inventories   | 3,172                 | 2,988            |
| Income taxes receivable   | —                     | 3,032            |
| Other current assets  | 6,662                 | 6,234            |
| Total current assets  | 312,810               | 296,274          |
| Property, plant and equipment at cost:  |                       |                  |
| Land and buildings  | 29,667                | 29,649           |
| Construction equipment  | 71,132                | 69,998           |
| Transportation equipment  | 37,126                | 34,366           |
| Office equipment and software   | 18,763                | 18,426           |
| Construction in progress  | 9,559                 | 9,080            |
|   | 166,247               | 161,519          |
| Accumulated depreciation  | (92,920)              | (90,218)         |
|   | 73,327                | 71,301           |
| Goodwill  | 30,887                | 30,836           |
| Other intangible assets   | 7,378                 | 7,551            |
| Other assets  | 4,586                 | 4,016            |
| Total assets  | \$428,988             | \$409,978        |

See accompanying notes.

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Matrix Service Company  
Condensed Consolidated Balance Sheets  
(In thousands, except share data)  
(unaudited)

|  | September 30,<br>2013 | June 30,<br>2013 |
|--|-----------------------|------------------|
| Liabilities and stockholders' equity   |                       |                  |
| Current liabilities:   |                       |                  |
| Accounts payable   | \$67,799              | \$68,961         |
| Billings on uncompleted contracts in excess of costs and estimated earnings  | 75,783                | 62,848           |
| Accrued wages and benefits   | 17,850                | 21,919           |
| Accrued insurance  | 7,651                 | 7,599            |
| Income taxes payable   | 601                   | —                |
| Other accrued expenses   | 2,558                 | 3,039            |
| Total current liabilities  | 172,242               | 164,366          |
| Deferred income taxes  | 7,844                 | 7,450            |
| Long term debt   | 2,426                 | —                |
| Total liabilities  | 182,512               | 171,816          |
| Commitments and contingencies  |                       |                  |
| Stockholders' equity:  |                       |                  |
| Common stock—\$.01 par value; 60,000,000 shares authorized; 27,888,217 shares issued as of September 30, 2013, and June 30, 2013 | 279                   | 279              |
| Additional paid-in capital   | 119,063               | 118,190          |
| Retained earnings  | 147,979               | 141,427          |
| Accumulated other comprehensive income   | 529                   | 227              |
|  | 267,850               | 260,123          |
| Less: Treasury stock, at cost—1,746,259 shares as of September 30, 2013, and 1,779,593 shares as of June 30, 2013                | (21,374)              | (21,961)         |
| Total stockholders' equity   | 246,476               | 238,162          |
| Total liabilities and stockholders' equity   | \$428,988             | \$409,978        |

See accompanying notes.

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Matrix Service Company  
Condensed Consolidated Statements of Cash Flows  
(In thousands)  
(unaudited)

|  | Three Months Ended |                    |
|--|--------------------|--------------------|
|  | September 30, 2013 | September 30, 2012 |
| Operating activities:  |                    |                    |
| Net income   | \$6,552            | \$4,684            |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: |                    |                    |
| Depreciation and amortization  | 3,720              | 2,826              |
| Deferred income tax  | (111)              | ) 98               |
| Gain on sale of property, plant and equipment  | (36)               | ) (33)             |
| Allowance for uncollectible accounts   | (13)               | ) 705              |
| Stock-based compensation expense   | 1,087              | 866                |
| Other  | 49                 | 8                  |
| Changes in operating assets and liabilities increasing (decreasing) cash:                |                    |                    |
| Accounts receivable  | (9,620)            | ) (49,515)         |
| Costs and estimated earnings in excess of billings on uncompleted contracts              | 7,095              | ) (9,036)          |
| Inventories  | (184)              | ) (785)            |
| Other assets   | (1,048)            | ) (1,292)          |
| Accounts payable   | (1,111)            | ) 12,541           |
| Billings on uncompleted contracts in excess of costs and estimated earnings              | 12,935             | 15,344             |
| Accrued expenses   | (865)              | ) 2,591            |
| Net cash provided (used) by operating activities   | 18,450             | (20,998)           |
| Investing activities:  |                    |                    |
| Acquisition of property, plant and equipment   | (5,763)            | ) (5,092)          |
| Proceeds from asset sales  | 279                | 37                 |
| Net cash used by investing activities  | \$(5,484)          | ) \$(5,055)        |

See accompanying notes.



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Matrix Service Company  
Condensed Consolidated Statements of Cash Flows  
(In thousands)  
(unaudited)

|  | Three Months Ended    |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2013 | September 30,<br>2012 |
| Financing activities:  |                       |                       |
| Issuances of common stock  | \$356                 | \$61                  |
| Capital lease payments   | —                     | (22 )                 |
| Excess tax benefit of exercised stock options and vesting of deferred shares | 4                     | 30                    |
| Advances under credit agreement  | 8,975                 | 7,828                 |
| Repayments of advances under credit agreement                                | (6,549 )              | (4,473 )              |
| Treasury shares purchased by Employee Stock Purchase Plan                    | 18                    | 8                     |
| Other treasury share purchases   | (4 )                  | (350 )                |
| Net cash provided by financing activities                                    | 2,800                 | 3,082                 |
| Effect of exchange rate changes on cash                                      | 246                   | 415                   |
| Net increase (decrease) in cash and cash equivalents                         | 16,012                | (22,556 )             |
| Cash and cash equivalents, beginning of period                               | 63,750                | 39,726                |
| Cash and cash equivalents, end of period                                     | \$79,762              | \$17,170              |
| Supplemental disclosure of cash flow information:                            |                       |                       |
| Cash paid during the period for:   |                       |                       |
| Income taxes   | \$58                  | \$776                 |
| Interest   | \$146                 | \$126                 |
| Non-cash investing and financing activities:                                 |                       |                       |
| Purchases of property, plant and equipment on account                        | \$1,095               | \$649                 |

See accompanying notes.

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## Matrix Service Company

## Condensed Consolidated Statements of Changes in Stockholders' Equity

(In thousands, except share data)

(unaudited)

|  | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income(Loss) | Total     |
|--|-----------------|----------------------------------|----------------------|-------------------|---|-----------|
| Balances, June 30, 2013  | \$279           | \$118,190                        | \$141,427            | \$(21,961 )       | \$ 227  | \$238,162 |
| Net income   | —               | —                                | 6,552                | —                 | —   | 6,552     |
| Other comprehensive income   | —               | —                                | —                    | —                 | 302   | 302       |
| Exercise of stock options (31,800 shares)                            | —               | (204 )                           | —                    | 560               | —   | 356       |
| Tax effect of exercised stock options and vesting of deferred shares | —               | 3                                | —                    | —                 | —   | 3         |
| Issuance of deferred shares (644 shares)                             | —               | (11 )                            | —                    | 11                | —   | —         |
| Treasury shares sold to Employee Stock Purchase Plan (1,127 shares)  | —               | (2 )                             | —                    | 20                | —   | 18        |
| Other treasury share purchases (237 shares)                          | —               | —                                | —                    | (4 )              | —   | (4 )      |
| Stock-based compensation expense                                     | —               | 1,087                            | —                    | —                 | —   | 1,087     |
| Balances, September 30, 2013   | \$279           | \$119,063                        | \$147,979            | \$(21,374 )       | \$ 529  | \$246,476 |
| Balances, June 30, 2012  | \$279           | \$116,693                        | \$117,419            | \$(24,065 )       | \$ 771  | \$211,097 |
| Net income   | —               | —                                | 4,684                | —                 | —   | 4,684     |
| Other comprehensive income   | —               | —                                | —                    | —                 | 467   | 467       |
| Exercise of stock options (16,600 shares)                            | —               | 18                               | —                    | 43                | —   | 61        |
| Tax effect of exercised stock options and vesting of deferred shares | —               | (10 )                            | —                    | —                 | —   | (10 )     |
| Issuance of deferred shares (106,394 shares)                         | —               | (276 )                           | —                    | 276               | —   | —         |
| Treasury shares sold to Employee Stock Purchase Plan (686 shares)    | —               | 6                                | —                    | 2                 | —   | 8         |
| Other treasury share purchases (33,454 shares)                       | —               | —                                | —                    | (350 )            | —   | (350 )    |
| Stock-based compensation expense                                     | —               | 866                              | —                    | —                 | —   | 866       |
| Balances, September 30, 2012   | \$279           | \$117,297                        | \$122,103            | \$(24,094 )       | \$ 1,238  | \$216,823 |
| See accompanying notes.  |                 |                                  |                      |                   |   |           |

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## Matrix Service Company

## Notes to Condensed Consolidated Financial Statements

(unaudited)

## Note 1 – Basis of Presentation

The condensed consolidated financial statements include the accounts of Matrix Service Company (“Matrix”, “we”, “our”, “us”, “its” or the “Company”) and its subsidiaries, all of which are wholly owned. Intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission and do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, the information furnished reflects all adjustments, consisting of normal recurring adjustments and other adjustments described herein, that are, in the opinion of management, necessary for a fair statement of the results of operations, cash flows and financial position for the interim periods presented. The accompanying condensed financial statements should be read in conjunction with the audited financial statements for the year ended June 30, 2013, included in the Company’s Annual Report on Form 10-K for the year then ended. The Company’s business is cyclical due to the scope and timing of projects released by our customers. Therefore, results from year to year can vary. Turnarounds and planned outages at customer facilities are typically scheduled in the spring and the fall when the demand is lower. As a result, quarterly operating results can exhibit seasonal fluctuations, especially in our Oil Gas & Chemical segment. We typically see a lower level of operating activity relating to construction projects during the winter months and early in the calendar year because many of our customers’ capital budgets have not been finalized. Our business can also be affected both positively and negatively by seasonal factors such as energy demand or weather conditions, including hurricanes, snowstorms, and abnormally low or high temperatures. Accordingly, results for any interim period may not necessarily be indicative of future operating results.

## Note 2 – Uncompleted Contracts

Contract terms of the Company’s construction contracts generally provide for progress billings based on project milestones. The excess of costs incurred and estimated earnings over amounts billed on uncompleted contracts is reported as a current asset. The excess of amounts billed over costs incurred and estimated earnings recognized on uncompleted contracts is reported as a current liability. Gross and net amounts on uncompleted contracts are as follows:

|   | September 30,<br>2013 | June 30,<br>2013 |
|---|-----------------------|------------------|
|   | (in thousands)        |                  |
| Costs incurred and estimated earnings recognized on uncompleted contracts   | \$848,334             | \$802,588        |
| Billings on uncompleted contracts   | 857,439               | 791,663          |
|   | \$(9,105)             | ) \$10,925       |
| Shown on balance sheet as:  |                       |                  |
| Costs and estimated earnings in excess of billings on uncompleted contracts | \$66,678              | \$73,773         |
| Billings on uncompleted contracts in excess of costs and estimated earnings | 75,783                | 62,848           |
|   | \$(9,105)             | ) \$10,925       |

Progress billings in accounts receivable at September 30, 2013 and June 30, 2013 included retentions to be collected within one year of \$23.7 million and \$19.9 million, respectively. Contract retentions collectible beyond one year totaled \$3.6 million at September 30, 2013 and \$3.1 million at June 30, 2013.

## SME Receivables

The Company continues to pursue collection of a certain receivable acquired in connection with the purchase of S.M. Electric Company, Inc. in February 2009. The recorded values at September 30, 2013 include \$0.7 million in claim receivables, which represents the Company’s best estimate of the amount to be collected under a claim, and an

additional \$2.9 million for amounts due under the related contract. Recovering the remaining receivables will require mediation or litigation and the ultimate amount realized may be significantly different than the recorded amounts, which could result in a material adjustment to future earnings.

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## Matrix Service Company

## Notes to Condensed Consolidated Financial Statements

(unaudited)

## Other

There were no changes in estimates that caused a material impact to our results of operations during the periods presented herein.

## Note 3 – Intangible Assets Including Goodwill

## Goodwill

The changes in the carrying value of goodwill by segment are as follows:

|                                   | Electrical<br>Infrastructure<br>(In thousands) | Oil Gas &<br>Chemical | Storage<br>Solutions | Industrial | Total     |
|-----------------------------------|--|-----------------------|----------------------|------------|-----------|
| Goodwill                          | \$29,666                                       | \$8,088               | \$10,985             | \$7,097    | \$55,836  |
| Cumulative impairment loss (A)    | (17,653 )                                      | (3,000 )              | (922 )               | (3,425 )   | (25,000 ) |
| Net balance at June 30, 2013      | 12,013   | 5,088                 | 10,063               | 3,672      | 30,836    |
| Translation adjustment (B)        | —  | —                     | 51                   | —          | 51        |
| Net balance at September 30, 2013 | \$12,013                                       | \$5,088               | \$10,114             | \$3,672    | \$30,887  |

(A) A \$25.0 million impairment charge was recorded in February 2005 as a result of the Company's operating performance in fiscal 2005.

(B) The translation adjustment relates to the periodic translation of Canadian Dollar denominated goodwill recorded as a part of a prior Canadian acquisition.

## Other Intangible Assets

Information on the carrying value of other intangible assets is as follows:

|                              | Useful Life<br>(Years) | At September 30, 2013                      |                             |                        |
|------------------------------|------------------------|--|-----------------------------|------------------------|
|                              |                        | Gross Carrying<br>Amount<br>(In thousands) | Accumulated<br>Amortization | Net Carrying<br>Amount |
| Intellectual property        | 6 to 15                | \$2,460                                    | \$(795 )                    | \$1,665                |
| Customer based               | 1 to 15                | 4,250                                      | (626 )                      | 3,624                  |
| Non-compete agreements       | 3 to 5                 | 808  | (326 )                      | 482                    |
| Trade Name                   | 5                      | 165  | (8 )                        | 157                    |
| Total amortizing intangibles |                        | 7,683                                      | (1,755 )                    | 5,928                  |
| Trade name                   | Indefinite             | 1,450                                      | —                           | 1,450                  |
| Total intangible assets      |                        | \$9,133                                    | \$(1,755 )                  | \$7,378                |

|                              | Useful Life<br>(Years) | At June 30, 2013                           |                             |                        |
|------------------------------|------------------------|--|-----------------------------|------------------------|
|                              |                        | Gross Carrying<br>Amount<br>(In thousands) | Accumulated<br>Amortization | Net Carrying<br>Amount |
| Intellectual property        | 6 to 15                | \$2,460                                    | \$(753 )                    | \$1,707                |
| Customer based               | 1 to 15                | 4,250                                      | (542 )                      | 3,708                  |
| Non-compete agreements       | 3 to 5                 | 808  | (287 )                      | 521                    |
| Trade Name                   | 5                      | 165  | —                           | 165                    |
| Total amortizing intangibles |                        | 7,683                                      | (1,582 )                    | 6,101                  |
| Trade name                   | Indefinite             | 1,450                                      | —                           | 1,450                  |

|                         |         |          |           |
|-------------------------|---------|----------|-----------|
| Total intangible assets | \$9,133 | \$(1,582 | ) \$7,551 |
|-------------------------|---------|----------|-----------|

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## Matrix Service Company

## Notes to Condensed Consolidated Financial Statements

(unaudited)

Amortization expense totaled \$0.2 million in the three months ended September 30, 2013 and \$0.1 million in the three months ended September 30, 2012. Amortization expense is expected to be \$0.7 million annually in fiscal years 2014 through 2016, and \$0.6 million in fiscal years 2017 and 2018.

## Note 4 – Debt

The Company has a five-year, \$125.0 million senior secured revolving credit facility (the “Credit Agreement”) that expires November 7, 2016. Advances under the Credit Agreement may be used for working capital, issuance of letters of credit and other lawful corporate purposes.

The Credit Agreement includes the following covenants and borrowing limitations:

• Our Senior Leverage Ratio, as defined in the agreement, may not exceed 2.50 to 1.00 as of the end of each fiscal quarter.

• We are required to maintain a Fixed Charge Coverage Ratio, as defined in the agreement, greater than or equal to 1.25 to 1.00 as of the end of each fiscal quarter.

• Asset dispositions (other than inventory and obsolete or unneeded equipment disposed of in the ordinary course of business) are limited to \$15.0 million per 12-month period.

Amounts borrowed under the Credit Agreement bear interest at LIBOR or an Alternate Base Rate, plus in each case, an additional margin based on the Senior Leverage Ratio. The additional margin on Alternate Base Rate and LIBOR-based loans ranges between 0.75% and 1.5% and between 1.75% and 2.5%, respectively.

The Credit Agreement also permits us to borrow in Canadian dollars with a sublimit of U.S. \$15.0 million. Amounts borrowed in Canadian dollars will bear interest either at the CDOR Rate, plus an additional margin based on the Senior Leverage Ratio ranging from 1.75% to 2.5%, or at the Canadian Prime Rate, plus an additional margin based on the Senior Leverage Ratio ranging from 2.25% to 3.0%. The CDOR Rate is equal to the sum of the annual rate of interest, which is the rate determined as being the arithmetic average of the quotations of all institutions listed in respect of the relevant CDOR interest period for Canadian Dollar denominated bankers’ acceptances, plus 0.1%. The Canadian Prime Rate is equal to the greater of (i) the rate of interest per annum most recently announced or established by JPMorgan Chase Bank, N.A., Toronto Branch as its reference rate in effect on such day for determining interest rates for Canadian Dollar denominated commercial loans in Canada and (ii) the CDOR Rate plus 1.0%.

The Unused Credit Facility Fee is between 0.30% and 0.45% based on the Senior Leverage Ratio.

The Credit Agreement includes a Senior Leverage Ratio covenant which provides that Consolidated Funded Indebtedness, as of the end of any fiscal quarter, may not exceed 2.5 times Consolidated EBITDA, as defined in the Credit Agreement, over the previous four quarters. For the four quarters ended September 30, 2013, Consolidated EBITDA, as defined in the Credit Agreement, was \$57.1 million. Accordingly, at September 30, 2013, the Company had full availability of the \$125.0 million credit facility. Consolidated Funded Indebtedness at September 30, 2013 was \$9.2 million.

Availability under the senior credit facility was as follows:

|   | September 30,<br>2013<br>(In thousands) | June 30,<br>2013 |
|---|---|------------------|
| Senior credit facility                        | \$125,000                               | \$125,000        |
| Borrowings outstanding                        | 2,426                                   | —                |
| Letters of credit                             | 13,625                                  | 13,372           |
| Availability under the senior credit facility | \$108,949                               | \$111,628        |

The Company is in compliance with all affirmative, negative, and financial covenants under the Credit Agreement.





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Matrix Service Company

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 5 – Income Taxes

The Company complies with ASC 740, “Income Taxes”. Deferred income taxes are computed using the liability method whereby deferred tax assets and liabilities are recognized based on temporary differences between the financial and tax basis of assets and liabilities using presently enacted tax rates. Valuation allowances are established against deferred tax assets to the extent management believes that it is not probable the assets will be recovered.

The Company provides for income taxes regardless of whether it has received a tax assessment. Taxes are provided when it is considered probable that additional taxes will be due in excess of amounts included in the tax return. The Company regularly reviews exposure to additional income taxes due, and as further information is known or events occur, adjustments may be recorded.

Note 6 – Commitments and Contingencies

Insurance Reserves

The Company maintains insurance coverage for various aspects of its operations. However, exposure to potential losses is retained through the use of deductibles, self-insured retentions and coverage limits.

Typically our contracts require us to indemnify our customers for injury, damage or loss arising from the performance of our services and provide warranties for materials and workmanship. The Company may also be required to name the customer as an additional insured up to the limits of insurance available, or we may be required to purchase special insurance policies or surety bonds for specific customers or provide letters of credit in lieu of bonds to satisfy performance and financial guarantees on some projects. Matrix maintains a performance and payment bonding line sufficient to support the business. The Company generally requires its subcontractors to indemnify the Company and the Company’s customer and name the Company as an additional insured for activities arising out of the subcontractors’ work. We also require certain subcontractors to provide additional insurance policies, including surety bonds in favor of the Company, to secure the subcontractors’ work or as required by the subcontract.

There can be no assurance that our insurance and the additional insurance coverage provided by our subcontractors will fully protect us against a valid claim or loss under the contracts with our customers.

Unapproved Change Orders and Claims

Costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders and claims of \$10.3 million at September 30, 2013 and \$9.1 million at June 30, 2013. Generally, collection of amounts related to unapproved change orders and claims is expected within twelve months. However, since customers may not pay these amounts until final resolution of related claims, collection of these amounts may extend beyond one year.

Other

The Company and its subsidiaries are participants in various legal actions. It is the opinion of management that none of the known legal actions will have a material impact on the Company’s financial position, results of operations or liquidity.

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Matrix Service Company  
Notes to Condensed Consolidated Financial Statements  
(unaudited)

## Note 7 – Earnings per Common Share

Basic earnings per share (“Basic EPS”) is calculated based on the weighted average shares outstanding during the period. Diluted earnings per share (“Diluted EPS”) includes the dilutive effect of stock options and nonvested deferred shares.

The computation of basic and diluted earnings per share is as follows:

|   | Three Months Ended                    |                       |
|---|---------------------------------------|-----------------------|
|   | September 30,<br>2013                 | September 30,<br>2012 |
|   | (In thousands, except per share data) |                       |
| Basic EPS:                                  |                                       |                       |
| Net income                                  | \$ 6,552                              | \$ 4,684              |
| Weighted average shares outstanding         | 26,116                                | 25,788                |
| Basic EPS                                   | \$ 0.25                               | \$ 0.18               |
| Diluted EPS:                                |                                       |                       |
| Weighted average shares outstanding – basic | 26,116                                | 25,788                |
| Dilutive stock options                      | 137                                   | 70                    |
| Dilutive nonvested deferred shares          | 394                                   | 290                   |
| Diluted weighted average shares             | 26,647                                | 26,148                |
| Diluted EPS                                 | \$ 0.25                               | \$ 0.18               |

The following securities are considered antidilutive and have been excluded from the calculation of Diluted EPS:

|                               | Three Months Ended    |                       |
|-------------------------------|-----------------------|-----------------------|
|                               | September 30,<br>2013 | September 30,<br>2012 |
|                               | (In thousands)        |                       |
| Stock options                 | —                     | 327                   |
| Nonvested deferred shares     | 60                    | 32                    |
| Total antidilutive securities | 60                    | 359                   |

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Matrix Service Company  
Notes to Condensed Consolidated Financial Statements  
(unaudited)

Note 8 – Segment Information

We operate our business through four reportable segments: Electrical Infrastructure, Oil Gas & Chemical, Storage Solutions, and Industrial.

The Electrical Infrastructure segment primarily encompasses high voltage services to investor owned utilities, including construction of new substations, upgrades of existing substations, short-run transmission line installations, distribution upgrades and maintenance, and storm restoration services. We also provide construction and maintenance services to a variety of power generation facilities, such as combined cycle plants, coal fired power stations, and renewable energy installations.

The Oil Gas & Chemical segment includes our traditional turnaround activities, plant maintenance services and construction in the downstream petroleum industry. Another key offering is industrial cleaning services, which include hydroblasting, hydroexcavating, chemical cleaning and vacuum services. We also perform work in the industrial and natural gas, gas processing and compression, and upstream petroleum markets.

The Storage Solutions segment includes new construction of crude and refined products aboveground storage tanks, as well as planned and emergency maintenance services. Also included in the Storage Solutions segment is work related to specialty storage tanks including liquefied natural gas (“LNG”), liquid nitrogen/liquid oxygen (“LIN/LOX”), liquid petroleum (“LPG”) tanks and other specialty vessels including spheres. Finally, the Storage Solutions segment includes balance of plant work in storage terminals and tank farms.

The Industrial segment includes work in the mining and minerals industry, bulk material handling, fertilizer production facilities, as well as work for clients in other industrial markets.

The Company evaluates performance and allocates resources based on operating income. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

Intersegment sales and transfers are recorded at cost; therefore, no intercompany profit or loss is recognized.

Segment assets consist primarily of accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts, property, plant and equipment, goodwill and other intangible assets.

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Matrix Service Company  
Notes to Condensed Consolidated Financial Statements  
(unaudited)

Results of Operations  
(In thousands)

|                              | Three Months Ended |                    |
|------------------------------|--------------------|--------------------|
|                              | September 30, 2013 | September 30, 2012 |
| Gross revenues               |                    |                    |
| Electrical Infrastructure    | \$32,877           | \$33,270           |
| Oil Gas & Chemical           | 62,792             | 67,097             |
| Storage Solutions            | 108,546            | 105,418            |
| Industrial                   | 22,691             | 4,975              |
| Total gross revenues         | \$226,906          | \$210,760          |
| Less: Inter-segment revenues |                    |                    |
| Electrical Infrastructure    | \$—                | \$—                |
| Oil Gas & Chemical           | 297                | —                  |
| Storage Solutions            | 392                | 1,152              |
| Industrial                   | —                  | —                  |
| Total inter-segment revenues | \$689              | \$1,152            |
| Consolidated revenues        |                    |                    |
| Electrical Infrastructure    | \$32,877           | \$33,270           |
| Oil Gas & Chemical           | 62,495             | 67,097             |
| Storage Solutions            | 108,154            | 104,266            |
| Industrial                   | 22,691             | 4,975              |
| Total consolidated revenues  | \$226,217          | \$209,608          |
| Gross profit (loss)          |                    |                    |
| Electrical Infrastructure    | \$3,330            | \$4,706            |
| Oil Gas & Chemical           | 7,531              | 7,867              |
| Storage Solutions            | 12,837             | 9,969              |
| Industrial                   | 1,778              | (298 )             |
| Total gross profit           | \$25,476           | \$22,244           |
| Operating income (loss)      |                    |                    |
| Electrical Infrastructure    | \$1,300            | \$2,319            |
| Oil Gas & Chemical           | 3,263              | 3,775              |
| Storage Solutions            | 5,832              | 3,449              |
| Industrial                   | 367                | (1,619 )           |
| Total operating income       | \$10,762           | \$7,924            |
| Segment assets               |                    |                    |
| Electrical Infrastructure    | \$59,018           | \$56,826           |
| Oil Gas & Chemical           | 79,513             | 71,848             |
| Storage Solutions            | 157,389            | 186,600            |
| Industrial                   | 35,801             | 14,179             |
| Unallocated Corporate assets | 97,267             | 33,397             |
| Total segment assets         | \$428,988          | \$362,850          |



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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

**CRITICAL ACCOUNTING ESTIMATES**

There have been no material changes in our critical accounting policies from those reported in our fiscal 2013 Annual Report on Form 10-K filed with the SEC. For more information on our critical accounting policies, see Part II, Item 7 of our fiscal 2013 Annual Report on Form 10-K. The following section provides certain information with respect to our critical accounting estimates as of the close of our most recent quarterly period.

**Unapproved Change Orders and Claims**

Costs and estimated earnings in excess of billings on uncompleted contracts included revenues for unapproved change orders and claims of \$10.3 million at September 30, 2013 and \$9.1 million at June 30, 2013. The amounts ultimately realized may be significantly different than the recorded amounts resulting in a material adjustment to future earnings.

**SME Receivables**

The Company continues to pursue collection of certain receivables acquired in connection with the purchase of S.M. Electric Company, Inc. in February 2009. The recorded values at September 30, 2013 include \$0.7 million in claim receivables, which represents the Company's best estimate of the amount to be collected under a claim, and an additional \$2.9 million for amounts due under the related contract. Recovering the remaining receivables will require mediation or litigation and the ultimate amount realized may be significantly different than the recorded amounts, which could result in an adjustment to future earnings.

**Insurance Reserves**

We maintain insurance coverage for various aspects of our operations. However, we retain exposure to potential losses through the use of deductibles, self-insured retentions and coverage limits. We establish reserves for claims using a combination of actuarially determined estimates and management judgment on a case-by-case basis and update our evaluations as further information becomes known. Judgments and assumptions, including the assumed losses for claims incurred but not reported, are inherent in our reserve accruals; as a result, changes in assumptions or claims experience could result in changes to these estimates in the future. If actual results of claim settlements are different than the amounts estimated, we may be exposed to gains and losses that could be significant.

**Goodwill**

The Company has five significant reporting units with goodwill representing 39%, 19%, 13%, 10% and 10% of the total goodwill balance. Our most recent annual goodwill impairment test, performed in the fourth quarter of fiscal 2013, indicated that the fair value of these reporting units exceeded their respective carrying values by 64%, 224%, 144%, 149% and 123%. The remaining 9% of total goodwill is spread between two other reporting units. Based on the excess of estimated fair value over carrying value and the absence of any indicators of impairment at September 30, 2013, the Company does not currently anticipate recording a goodwill impairment charge for any of its operating units.

**Other Intangible Assets**

Intangible assets that have finite useful lives are amortized by the straight-line method over their useful lives ranging from 1 to 15 years. Intangible assets that have indefinite useful lives are not amortized but are tested at least annually for impairment. Each reporting period, we evaluate the remaining useful lives of intangible assets not being amortized to determine whether facts and circumstances continue to support an indefinite useful life and review both amortizing and non-amortizing intangible assets for impairment indicators. Based on these reviews, the Company has determined that the indefinite lives assigned to its indefinite lived intangible assets are appropriate and no impairment indicators exist at September 30, 2013.

**Recently Issued Accounting Standards**

Accounting Standards Update 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued Accounting Standards Update No. 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities" (ASU 2011-11) and in January 2013, the FASB issued Accounting Standards Update No. 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." ASU 2011-11, as clarified, enhances disclosures surrounding offsetting (netting) assets and liabilities. The standard applies to derivatives, repurchase

agreements and securities lending transactions and requires companies to disclose gross and net information about financial instruments and derivatives eligible for offset and to disclose financial instruments and derivatives subject to master netting

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arrangements in financial statements. ASU 2011-11 was effective for us beginning with the first quarter of fiscal 2014. The adoption of this standard did not have a material impact on our consolidated financial statements.

Accounting Standards Update 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued Accounting Standards Update No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" (ASU 2013-02). ASU 2013-02 requires companies to report the effect of significant reclassifications out of accumulated other comprehensive income, by component, either on the face of the financial statements or in the notes to the financial statements and is intended to help entities improve the transparency of changes in other comprehensive income. ASU 2013-02 does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. ASU 2013-02 was effective for reporting periods beginning after December 15, 2012. The adoption of this standard did not have a material impact on our consolidated financial statements.

Accounting Standards Update 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date

In February 2013, the FASB issued Accounting Standards Update No. 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date" (ASU 2013-04). ASU 2013-04 addresses the recognition, measurement and disclosure of obligations when multiple parties incur joint liabilities where the total amount of the obligation is fixed at the financial reporting date. This standard requires the recognition of the total amount of the liability that the parties are obligated to pay under an arrangement, along with any additional amount the company might expect to pay on behalf of other parties to the liability. ASU 2013-04 is effective for periods beginning after December 15, 2013. We currently do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

## RESULTS OF OPERATIONS

### Overview

We operate our business through the following four segments:

The Electrical Infrastructure segment primarily encompasses high voltage services to investor owned utilities, including construction of new substations, upgrades of existing substations, short-run transmission line installations, distribution upgrades and maintenance, and storm restoration services. We also provide construction and maintenance services to a variety of power generation facilities, such as combined cycle plants, coal fired power stations, and renewable energy installations.

The Oil Gas & Chemical segment includes our traditional turnaround activities, plant maintenance services and construction in the downstream petroleum industry. Another key offering is industrial cleaning services, which includes hydroblasting, hydroexcavating, chemical cleaning and vacuum services. We also perform work in the industrial and natural gas, gas processing and compression, and upstream petroleum markets.

The Storage Solutions segment includes new construction of crude and refined products aboveground storage tanks, as well as planned and emergency maintenance services. Also included in the Storage Solutions segment is work related to specialty storage tanks including liquefied natural gas ("LNG"), liquid nitrogen/liquid oxygen ("LIN/LOX"), liquid petroleum ("LPG") tanks and other specialty vessels including spheres. Finally, the Storage Solutions segment includes balance of plant work in storage terminals and tank farms.

The Industrial segment includes work in the mining and minerals industry, bulk material handling, fertilizer production facilities, as well as work for clients in other industrial markets.

Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012

### Consolidated

Consolidated revenues were \$226.2 million for the three months ended September 30, 2013, an increase of \$16.6 million, or 7.9%, from consolidated revenues of \$209.6 million in the same period in the prior fiscal year. The

increase in consolidated revenues was a result of increases in Industrial and Storage Solutions revenues, which increased \$17.7 million and \$3.9 million, respectively, partially offset by decreases in our Oil Gas & Chemical and Electrical Infrastructure segments of \$4.6 million and \$0.4 million, respectively.

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Consolidated gross profit increased from \$22.2 million in the three months ended September 30, 2012 to \$25.5 million in the three months ended September 30, 2013. The increase of \$3.3 million, or 14.9%, was due to higher revenues, and higher gross margins which increased to 11.3% in the first quarter of fiscal 2014 compared to 10.6% a year earlier.

Consolidated SG&A expenses were \$14.7 million in the three months ended September 30, 2013 compared to \$14.3 million in the same period a year earlier. SG&A expense as a percentage of revenue was 6.5% in the three months ended September 30, 2013 compared to 6.8% in the same period a year earlier. Last year's SG&A expenses included charges related to the previously discussed branding initiative and a bad debt charge.

Net interest expense was \$0.2 million in the three months ended September 30, 2013 and 2012.

The effective tax rate was 37.3% for the three months ended September 30, 2013 and 40.0% for the three months ended September 30, 2012.

### Electrical Infrastructure

Revenues for the Electrical Infrastructure segment were \$32.9 million for the three months ended September 30, 2013 compared to \$33.3 million in the same period a year earlier. The decline in revenues was attributable to lower storm related revenues in fiscal 2014 largely offset by higher revenues across the remainder of the segment. Gross margins were 10.1% in the three months ended September 30, 2013 compared to 14.1% for the three months ended September 30, 2012. Fiscal 2014 margins were negatively affected by the mix of work leading to lower direct margins and higher unrecovered overhead costs. Fiscal 2013 margins were positively affected by higher levels of storm restoration work.

### Oil Gas & Chemical

Revenues for the Oil Gas & Chemical segment were \$62.5 million in the three months ended September 30, 2013 compared to \$67.1 million in the same period a year earlier. The decrease of \$4.6 million, or 6.9%, was primarily due to a lower level of capital construction projects partially offset by higher industrial cleaning work. Gross margins were 12.1% in the three months ended September 30, 2013 compared to 11.7% in the same period a year earlier.

### Storage Solutions

Revenues for the Storage Solutions segment increased to \$108.1 million in the three months ended September 30, 2013 compared to \$104.2 million in the same period a year earlier. The increase of \$3.9 million, or 3.7%, was primarily due to higher levels of domestic work in our aboveground storage tank business. Gross margins increased from 9.6% in the three months ended September 30, 2012 to 11.9% in the same period in the current year. The higher margins for the three months ended September 30, 2013 was primarily due to higher direct margins related to strong project execution partially offset by higher unrecovered overhead costs.

### Industrial

Revenues for the Industrial segment totaled \$22.7 million in the three months ended September 30, 2013 compared to \$5.0 million in the same period a year earlier. The increase of \$17.7 million, or 354.0%, was primarily due to growth in our mining and minerals and material handling businesses as well as ongoing work on a previously announced project for the engineering, procurement and construction of specialty tanks in a nitrogen fertilizer complex. Gross margins were positive in the first quarter of fiscal 2014 at 7.8% compared to (6.0%) in the three months ended September 30, 2012. The improvement in gross margins is due to improved project execution and a higher recovery of construction overhead costs due to higher business volumes.

### Backlog

We define backlog as the total dollar amount of revenues that we expect to recognize as a result of performing work that has been awarded to us through a signed contract, notice to proceed or other type of assurance that we consider firm. The following arrangements are considered firm:

- fixed-price awards;

- minimum customer commitments on cost plus arrangements; and

- certain time and material arrangements in which the estimated value is firm or can be estimated with a reasonable amount of certainty in both timing and amounts.

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For long-term maintenance contracts we include only the amounts that we expect to recognize into revenue over the next 12 months. For all other arrangements, we calculate backlog as the estimated contract amount less revenues recognized as of the reporting date.

The following table provides a summary of changes in our backlog for the three months ended September 30, 2013:

|                                  | Electrical<br>Infrastructure<br>(In thousands) | Oil Gas &<br>Chemical | Storage<br>Solutions | Industrial | Total      |
|----------------------------------|--|-----------------------|----------------------|------------|------------|
| Backlog as of June 30, 2013      | \$ 103,520                                     | \$ 120,138            | \$ 319,718           | \$ 83,361  | \$ 626,737 |
| Net awards                       | 26,444   | 61,277                | 170,437              | 14,139     | 272,297    |
| Revenue recognized               | (32,877 )                                      | (62,495 )             | (108,154 )           | (22,691 )  | (226,217 ) |
| Backlog as of September 30, 2013 | \$ 97,087                                      | \$ 118,920            | \$ 382,001           | \$ 74,809  | \$ 672,817 |

## Non-GAAP Financial Measure

EBITDA is a supplemental, non-GAAP financial measure. EBITDA is defined as earnings before interest expense, income taxes, depreciation and amortization. We have presented EBITDA because it is used by the financial community as a method of measuring our performance and of evaluating the market value of companies considered to be in similar businesses. We believe that the line item on our Consolidated Statements of Income entitled "Net Income" is the most directly comparable GAAP measure to EBITDA. Since EBITDA is not a measure of performance calculated in accordance with GAAP, it should not be considered in isolation of, or as a substitute for, net earnings as an indicator of operating performance. EBITDA, as we calculate it, may not be comparable to similarly titled measures employed by other companies. In addition, this measure is not necessarily a measure of our ability to fund our cash needs. As EBITDA excludes certain financial information compared with net income, the most directly comparable GAAP financial measure, users of this financial information should consider the type of events and transactions that are excluded. Our non-GAAP performance measure, EBITDA, has certain material limitations as follows:

It does not include interest expense. Because we have borrowed money to finance our operations, pay commitment fees to maintain our credit facility, and incur fees to issue letters of credit under the credit facility, interest expense is a necessary and ongoing part of our costs and has assisted us in generating revenue. Therefore, any measure that excludes interest expense has material limitations.

It does not include income taxes. Because the payment of income taxes is a necessary and ongoing part of our operations, any measure that excludes income taxes has material limitations.

It does not include depreciation or amortization expense. Because we use capital and intangible assets to generate revenue, depreciation and amortization expense is a necessary element of our cost structure. Therefore, any measure that excludes depreciation or amortization expense has material limitations.

A reconciliation of EBITDA to net income follows:

|                               | Three Months Ended<br>September 30, September 30,<br>2013 2012<br>(In thousands) |          |
|-------------------------------|--|----------|
| Net income                    | \$6,552  | \$4,684  |
| Interest expense              | 223  | 183      |
| Provision for income taxes    | 3,904  | 3,122    |
| Depreciation and amortization | 3,720  | 2,826    |
| EBITDA                        | \$14,399   | \$10,815 |



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### FINANCIAL CONDITION AND LIQUIDITY

#### Overview

We define liquidity as the ongoing ability to pay our liabilities as they become due, fund business operations and meet all monetary contractual obligations. Our primary sources of liquidity for the three months ended September 30, 2013 were cash on hand at the beginning of the fiscal year, capacity under our senior revolving credit facility and cash generated from operations. Cash on hand at September 30, 2013 totaled \$79.8 million and availability under the senior revolving credit facility totaled \$108.9 million resulting in available liquidity of \$188.7 million. We expect to fund our operations for the next twelve months through cash generated from operations, existing cash balances and borrowings under our credit facility.

Factors that routinely impact our short-term liquidity and may impact our long-term liquidity include, but are not limited to:

- Changes in costs and estimated earnings in excess of billings on uncompleted contracts and billings on uncompleted contracts in excess of costs due to contract terms that determine the timing of billings to customers and the collection of those billings

- Some cost plus and fixed price customer contracts are billed based on milestones which may require us to incur significant expenditures prior to collections from our customers.

- Time and material contracts are normally billed in arrears. Therefore, we are routinely required to carry these costs until they can be billed and collected.

- Some of our large construction projects may require significant retentions or security in the form of letters of credit.

- Other changes in working capital

- Capital expenditures

Other factors that may impact both short and long-term liquidity include:

- Acquisitions of new businesses

- Strategic investments in new operations

- Purchases of shares under our stock buyback program

- Contract disputes or collection issues

- Capacity constraints under our senior revolving credit facility and remaining in compliance with all covenants contained in the credit agreement

We have an effective shelf registration statement on file with the SEC under which we may issue, from time to time, up to \$400 million of senior debt securities, subordinated debt securities, common stock, preferred stock and warrants. This shelf gives us additional flexibility, when capital market conditions are favorable, to grow our business, finance acquisitions or to optimize our balance sheet in order to improve or maintain our financial flexibility. We may also elect to issue term debt or increase the amount of our revolving credit facility.

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### Cash Flow in the Three Months Ended September 30, 2013

#### Cash Flows Provided by Operating Activities

Cash flows provided by operating activities for the three months ended September 30, 2013 totaled \$18.5 million. The various components of cash flows from operating activities are as follows:

#### Net Cash Provided by Operating Activities

(In thousands)

|  |          |   |
|--|----------|---|
| Net income   | \$6,552  |   |
| Non-cash expenses  | 4,844    |   |
| Deferred income tax  | (111)    | ) |
| Cash effect of changes in operating assets and liabilities | 7,202    |   |
| Other  | (37)     | ) |
| Net cash provided by operating activities                  | \$18,450 |   |

The cash effect of significant changes in operating assets and liabilities include the following:

• Accounts receivable increased by \$9.6 million. The accounts receivable increase is due to the timing of billings particularly in the Oil Gas & Chemical and Industrial segments. We view this as a normal short-term fluctuation.

The net change in the combined balance of costs and estimated earnings in excess of billings on uncompleted contracts and billings on uncompleted contracts in excess of costs and estimated earnings caused an increase to cash of \$20.0 million in the first quarter of fiscal 2014. This change was primarily attributable to our project portfolio permitting a higher degree of advanced billings in the first quarter of fiscal 2014 and a decrease in costs in excess of billings in the Electrical Infrastructure and Oil Gas & Chemical segments in the current period.

#### Cash Flows Used for Investing Activities

Investing activities used \$5.5 million of cash in the first quarter of fiscal 2014. This was due to capital expenditures of \$5.8 million offset by proceeds from asset dispositions of \$0.3 million. Capital expenditures included \$3.4 million for the purchase of construction equipment, \$1.3 million for transportation equipment, \$0.8 million for office equipment and software and \$0.3 million for land and buildings.

#### Cash Flows Provided by Financing Activities

Financing activities provided \$2.8 million of cash in the first quarter of fiscal 2014 primarily due to net cash borrowings of \$2.4 million and stock issuances of \$0.4 million. Cash borrowings were Canadian dollar advances under our credit agreement to settle intercompany cross currency payments.

#### Senior Revolving Credit Facility

The Company has a five-year, \$125.0 million senior secured revolving credit facility (the "Credit Agreement") that expires November 7, 2016. Advances under the Credit Agreement may be used for working capital, issuance of letters of credit and other lawful corporate purposes.

The Credit Agreement includes the following covenants and borrowing limitations:

• Our Senior Leverage Ratio, as defined in the agreement, may not exceed 2.50 to 1.00 as of the end of each fiscal quarter.

• We will be required to maintain a Fixed Charge Coverage Ratio, as defined in the agreement, greater than or equal to 1.25 to 1.00 as of the end of each fiscal quarter.

• Asset dispositions (other than inventory and obsolete or unneeded equipment disposed of in the ordinary course of business) are limited to \$15.0 million per 12-month period.





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Amounts borrowed under the Credit Agreement bear interest at LIBOR or an Alternate Base Rate, plus in each case, an additional margin based on the Senior Leverage Ratio. The additional margin on Alternate Base Rate and LIBOR-based loans ranges between 0.75% and 1.5% and between 1.75% and 2.5%, respectively.

The Credit Agreement also permits us to borrow in Canadian dollars with a sublimit of U.S. \$15.0 million. Amounts borrowed in Canadian dollars will bear interest either at the CDOR Rate, plus an additional margin based on the Senior Leverage Ratio ranging from 1.75% to 2.5%, or at the Canadian Prime Rate, plus an additional margin based on the Senior Leverage Ratio ranging from 2.25% to 3.0%. The CDOR Rate is equal to the sum of the annual rate of interest which is the rate determined as being the arithmetic average of the quotations of all institutions listed in respect of the relevant CDOR interest period for Canadian Dollar denominated bankers' acceptances, plus 0.1%. The Canadian Prime Rate is equal to the greater of (i) the rate of interest per annum most recently announced or established by JPMorgan Chase Bank, N.A., Toronto Branch as its reference rate in effect on such day for determining interest rates for Canadian Dollar denominated commercial loans in Canada and (ii) the CDOR Rate plus 1.0%.

The Unused Credit Facility Fee is between 0.30% and 0.45% based on the Senior Leverage Ratio.

As noted previously, the Credit Agreement includes a Senior Leverage Ratio covenant which provides that Consolidated Funded Indebtedness may not exceed 2.5 times Consolidated EBITDA, as defined in the agreement, over the previous four quarters. For the four quarters ended September 30, 2013, Consolidated EBITDA was \$57.1 million. Accordingly, at September 30, 2013, the Company had full availability of the \$125.0 million credit facility. Consolidated Funded Indebtedness at September 30, 2013 was \$9.2 million.

Availability under the senior credit facility at September 30, 2013 was as follows:

|   | September 30,<br>2013 | June 30,<br>2013 |
|---|-----------------------|------------------|
|   | (In thousands)        |                  |
| Senior credit facility                        | \$125,000             | \$125,000        |
| Borrowings outstanding                        | 2,426                 | —                |
| Letters of credit                             | 13,625                | 13,372           |
| Availability under the senior credit facility | \$108,949             | \$111,628        |

The Company is in compliance with all affirmative, negative, and financial covenants under the Credit Agreement.

**Dividend Policy**

We have never paid cash dividends on our common stock, and the terms of our Credit Agreement limit the amount of cash dividends we can pay. Under our Credit Agreement, we may declare and pay dividends on our capital stock during any fiscal year up to an amount which, when added to all other dividends paid during such fiscal year, does not exceed 50% of our cumulative net income for such fiscal year to such date. While we currently do not intend to pay cash dividends, any future dividend payments will depend on our financial condition, capital requirements and earnings as well as other relevant factors.

**Stock Repurchase Program and Treasury Shares****Treasury Shares**

On November 6, 2012, our Board of Directors approved an extension of a stock buyback program through calendar year 2014. The program allows the Company to purchase up to 2,113,497 shares provided that such purchases do not exceed \$25.0 million in any calendar year through the end of calendar year 2014 if sufficient liquidity exists and we believe that it is in the best interest of the stockholders. The Company has not purchased any shares under this program since the Board of Directors approved the extension.

In addition to the stock buyback program, the Company may withhold shares of common stock to satisfy the tax withholding obligations upon vesting of an employee's deferred shares. Matrix withheld 237 shares in the first quarter of fiscal 2014 to satisfy these obligations. These shares were returned to the Company's pool of treasury shares.

The Company has 1,746,259 treasury shares as of September 30, 2013 and intends to utilize these treasury shares solely in connection with equity awards under the Company's stock incentive plans.



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**FORWARD-LOOKING STATEMENTS**

This Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included in this Form 10-Q which address activities, events or developments which we expect, believe or anticipate will or may occur in the future are forward-looking statements. The words “believes,” “intends,” “expects,” “anticipates,” “projects,” “estimates,” “predicts” and similar expressions are also intended to identify forward-looking statements.

These forward-looking statements include, among others, such things as:

- amounts and nature of future revenues and margins from each of our segments;
  - the likely impact of new or existing regulations or market forces on the demand for our services;
  - expansion and other trends of the industries we serve;
  - our ability to generate sufficient cash from operations or to raise cash in order to meet our short and long-term capital requirements;
  - our expectations with respect to the likelihood of a future impairment; and
  - our ability to comply with the covenants in our credit agreement.
- These statements are based on certain assumptions and analyses we made in light of our experience and our historical trends, current conditions and expected future developments as well as other factors we believe are appropriate. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including:
- the risk factors discussed in our Form 10-K for the fiscal year ended June 30, 2013 and listed from time to time in our filings with the Securities and Exchange Commission;
  - the inherently uncertain outcome of current and future litigation;
  - the adequacy of our reserves for contingencies;
  - economic, market or business conditions in general and in the oil, gas, power and mining and minerals industries in particular;
  - changes in laws or regulations; and
  - other factors, many of which are beyond our control.

Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences or effects on our business operations. We assume no obligation to update publicly, except as required by law, any such forward-looking statements, whether as a result of new information, future events or otherwise.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in market risk faced by us from those reported in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, filed with the Securities and Exchange Commission. For more information on market risk, see Part II, Item 7A in our fiscal 2013 Annual Report on Form 10-K.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rule 13a-15(e).

The disclosure controls and procedures are designed to provide reasonable, not absolute, assurance of achieving the desired control objectives. The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the disclosure controls and procedures or our internal controls over financial reporting will prevent or detect all errors or fraud. The design of our internal control system takes into account the fact that there are resource constraints and the benefits of controls must be weighed against the costs. Additionally, controls can be circumvented by the acts of key individuals, collusion or management override.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2013. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level at September 30, 2013.

There have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting during the quarter ended September 30, 2013.

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## PART II

## OTHER INFORMATION

## Item 1. Legal Proceedings

We are a party to a number of legal proceedings. We believe that the nature and number of these proceedings are typical for a company of our size engaged in our type of business and that none of these proceedings will result in a material effect on our business, results of operations, financial condition, cash flows or liquidity.

## Item 1A. Risk Factors

There were no material changes in our Risk Factors from those reported in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases made by the Company of its common stock during the first quarter of fiscal year 2014.

|                                   | Total Number<br>of Shares<br>Purchased | Average Price<br>Paid<br>Per Share | Total Number<br>of Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Number of<br>Shares That<br>May Yet Be<br>Purchased<br>Under the Plans<br>or Programs |
|-----------------------------------|--|------------------------------------|--|--|
| July 1 to July 31, 2013           |  |                                    |  |  |
| Share Repurchase Program (A)      | —                                      | —                                  | —  | 2,113,497  |
| Employee Transactions (B)         | 237                                    | \$16.72                            | —  |  |
| August 1 to August 31, 2013       |  |                                    |  |  |
| Share Repurchase Program (A)      | —                                      | —                                  | —  | 2,113,497  |
| Employee Transactions (B)         | —                                      | \$—                                | —  |  |
| September 1 to September 30, 2013 |  |                                    |  |  |
| Share Repurchase Program (A)      | —                                      | —                                  | —  | 2,113,497  |
| Employee Transactions (B)         | —                                      | \$—                                | —  |  |

(A) Represents shares purchased under our stock buyback program.

(B) Represents shares withheld to satisfy the employee's tax withholding obligation that is incurred upon the vesting of deferred shares granted under the Company's stock incentive plans.

## Dividend Policy

We have never paid cash dividends on our common stock, and the terms of our Credit Agreement limit the amount of cash dividends we can pay. Under our Credit Agreement, we may declare and pay dividends on our capital stock during any fiscal year up to an amount which, when added to all other dividends paid during such fiscal year, does not exceed 50% of our cumulative net income for such fiscal year to such date. While we currently do not intend to pay cash dividends, any future dividend payments will depend on our financial condition, capital requirements and earnings as well as other relevant factors.

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Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires domestic mine operators to disclose violations and orders issued under the Federal Mine Safety and Health Act of 1977 (the "Mine Act") by the federal Mine Safety and Health Administration. We do not act as the owner of any mines, but as a result of our performing services or construction at mine sites as an independent contractor, we are considered an "operator" within the meaning of the Mine Act.

Information concerning mine safety violations or other regulatory matters required to be disclosed in this quarterly report under Section 1503(a) of the Dodd-Frank Act and Item 104 of Regulation S-K is included in Exhibit 95.

Item 5. Other Information

None

Item 6. Exhibits:

Exhibit 31.1: Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CEO.

Exhibit 31.2: Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 – CFO.

Exhibit 32.1: Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CEO.

Exhibit 32.2: Certification Pursuant to 18 U.S.C. 1350 (section 906 of Sarbanes-Oxley Act of 2002) – CFO.

Exhibit 95: Mine Safety Disclosure.

Exhibit 101.INS: XBRL Instance Document.

Exhibit 101.SCH: XBRL Taxonomy Schema Document.

Exhibit 101.CAL: XBRL Taxonomy Extension Calculation Linkbase Document.

Exhibit 101.DEF: XBRL Taxonomy Extension Definition Linkbase Document.

Exhibit 101.LAB: XBRL Taxonomy Extension Labels Linkbase Document.

Exhibit 101.PRE: XBRL Taxonomy Extension Presentation Linkbase Document.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MATRIX SERVICE COMPANY

Date: November 8, 2013

By: /s/ Kevin S. Cavanah

Kevin S. Cavanah Vice President and Chief Financial Officer  
signing on behalf of the registrant and as the registrant's principal  
financial officer

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EXHIBIT INDEX

|                  |   |
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